

SAM – THE ‘BASEL II’ OF SA’S INSURANCE SECTOR

Centriq Insurance comments on SA insurance legislation

According to Michael Blain, CEO of Centriq Insurance, the allocation of human resources will be one of the biggest challenges small to medium insurers will face when the Financial Services Board (FSB) implements the new Solvency Assessment and Management (SAM) regime in 2014.

“SAM will become part of companies’ organisational DNA, therefore, a dedicated team will be required to manage the implementation and execution thereof on a full-time basis,” notes Blain. This lack of dedicated manpower may require smaller insurers to consolidate.

Based on the principles of the Solvency II Directive adopted by the European Parliament last year, SAM, which will supersede the current Financial Condition Reporting (FCR) structure, will align South Africa’s long and short-term insurance sector with international standards, taking local conditions into account.

“In short, SAM can be compared to BASEL II of SA’s banking sector in which all role players are governed and risk managed. If correctly implemented, SAM will help to ensure a sustainable insurance industry that has resilience to withstand shocks and meet policyholder obligations among others,” says Blain.

“To determine the risk based capital required under Pillar 1 of SAM, insurers and reinsurers will have an option to either apply a standardised model prescribed by the FSB or develop their own internal capital model. Both the standardised model and the internal models will be implemented by 2014,” adds Patrick Ndururi, Senior Manager of Actuarial Services at Centriq Insurance who also serves on one of the SAM sub-committees.

Other pillars under SAM include the Risk Management and Governance (Pillar II) and the Reporting and Disclosure requirements (Pillar III). There is also a pillar for Economic Impact study. Guidelines for these pillars are expected to be provided by 2012.

Commenting on SAM implementation processes, Ndururi says that certain interim measures to address particular concerns related to governance, internal controls and risk management in both the long and short-term insurance industries as well as matters pertaining to technical provisioning and capital requirements in the short-term insurance sector will be implemented by 2012.

Stakeholders involved in the development of SAM include various insurance and reinsurance companies, the South African Insurance Association (SAIA), the Association for Savings and Investment in South Africa (ASISA), National Treasury, The South African Institute of Chartered Accountants (SAICA), the South African Revenue Services (SARS) and the Independent Regulatory Board for Auditors (IRBA).